

RX 16



Alta Mesa Resources

Sarbanes-Oxley Compliance Project

November 13, 2018



**Exhibit
CP 0210**
Ronald Smith

Alta Mesa Resources, Inc.

Agenda



Sarbanes-Oxley Compliance Project:

- Project Status / Scope Update
- Results of Interim Testing – Business Process
- Results of Interim Testing – General IT Controls
- Q4'18 Planned Activities
- Discussion

This report is intended solely for the information and use of the Audit Committee, Board of Directors and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

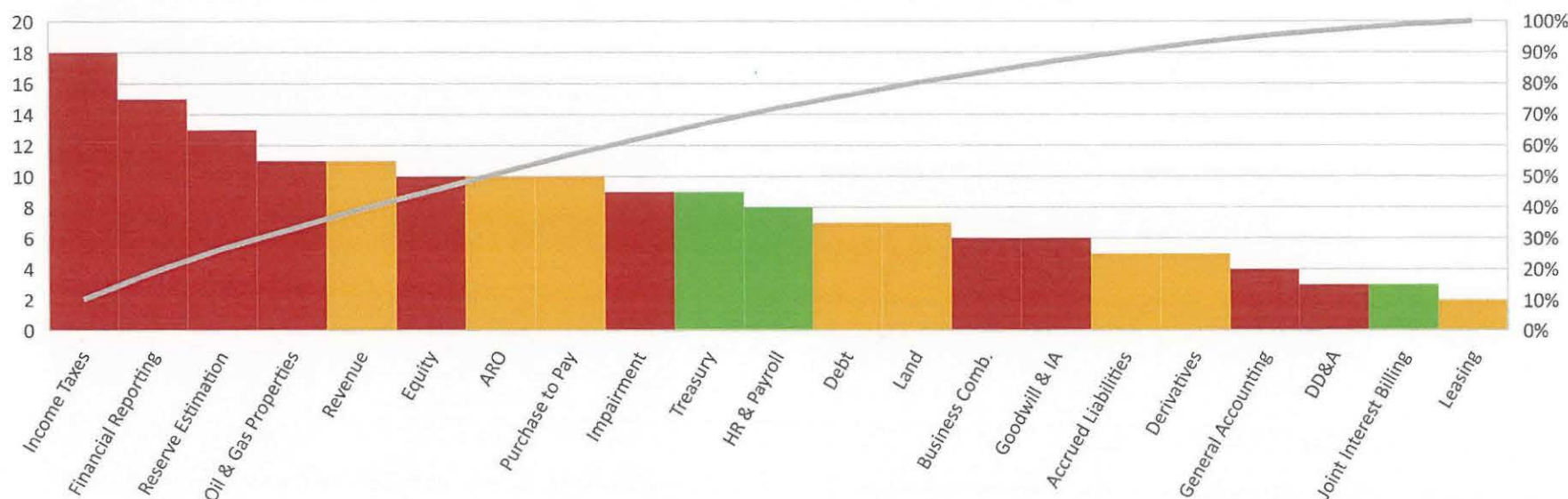
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SOX Compliance: Scope Update



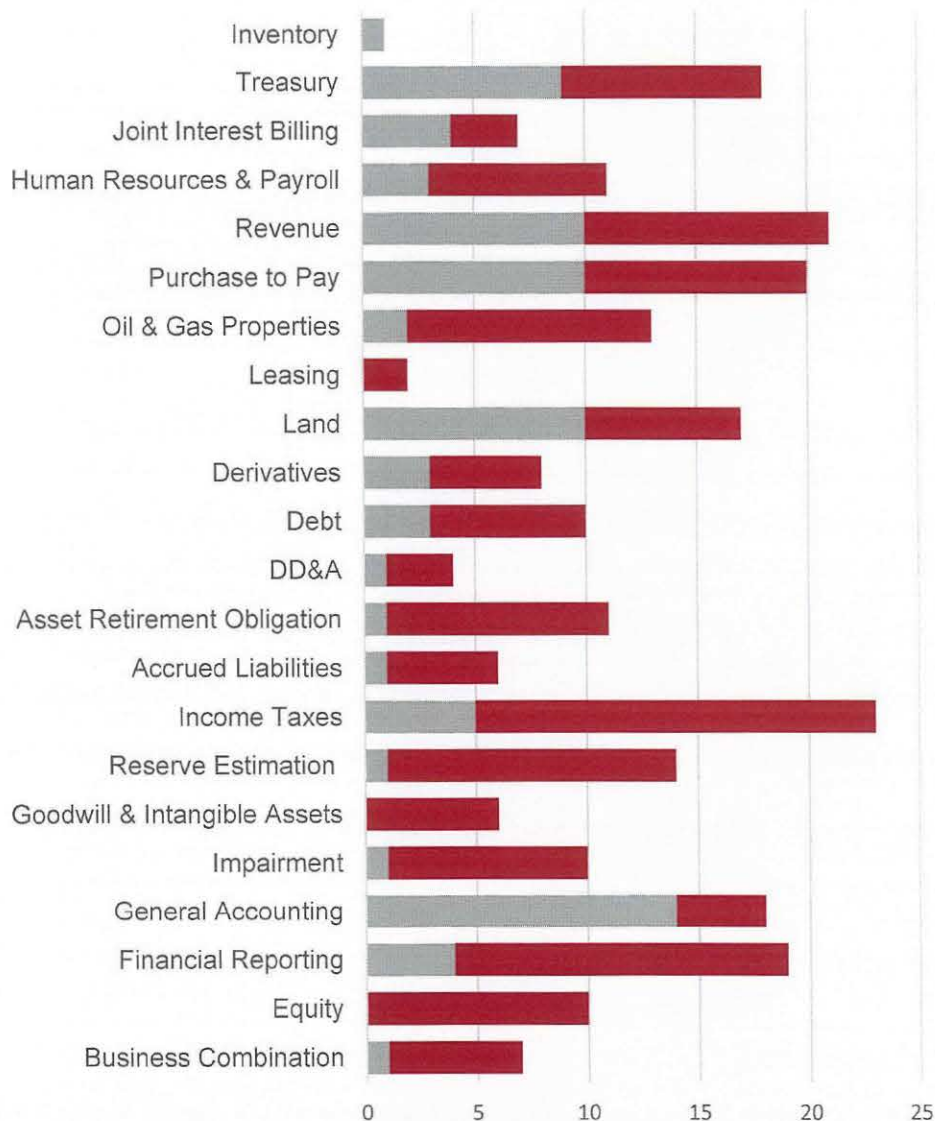
- Updated process-level risk assessment based on the results of interim test of design and operating effectiveness as well as the current period financial statements. Based on the updated assessment, the risk rating for two processes (i.e. Depletion & Oil and Gas Properties) was increased from moderate to high.
- Working with management to enhance control environment and ensure controls are in place and adequately designed to mitigate the risk of material misstatement. Controls distribution is aligned with process-level risk rating.
 - High Risk: 55%
 - Moderate Risk: 33%
 - Low Risk: 12%

Internal Control Distribution By Risk Rating



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SOX Compliance: Scope Update



Continued to work with management to document and refine control environment. Currently, there are 172 key controls compared to 84 key controls in the prior year.

Added 102 "key" controls and reclassified 15 key controls from prior year as non-key.

Approximately 55 of controls added related to new processes / activities not relevant in the prior yr.

- Equity
- Business Combination
- Goodwill & Intangible Assets
- Financial Reporting
- Income Tax
- Impairment Unproved Properties

88 / 102
new N/A

Remaining controls added were related to separating previously aggregated controls into component parts, documenting controls in place, and/or added to enhance control environment.

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SOX Compliance: Results of Interim Testing



Business Process Controls:

- Completed planned interim test of design and operating effectiveness procedures for the period January 1, 2018 through June 30, 2018. Identified 14 deficiencies in the design & operating effectiveness of internal control.
- Based on the results of interim testing, Internal Audit and management prioritized developing a remediation strategy and timeline and worked with process owners to ensure remediation activities were implemented.

lacking documentation on not that it didn't happen

Process Name	Process Risk Rating	Deficiency Classification		Total Deficiencies	Error Identified?*	Remediation Status
		Design	Operation			
Financial Reporting	High	1	-	1	No	In-Progress
Equity	High	-	3	3	No	In-Progress
Goodwill	High	1	-	1	No	Not Started
Accounting for PAR Settlement	High	-	1	1	Yes	N/A
Business Combination	High	1	-	1	No	In-Progress
Proved & Unproved Property Impairment	High	1	1	2	No	In-Progress
Depletion	High	-	2	2	No	In-Progress
Oil and Gas Properties	High	-	1	1	Yes	In-Progress
Asset Retirement Obligation	Moderate	-	1	1	No	In-Progress
Lease & Land Administration	Moderate	1	-	1	No	In-Progress
Total	-	5	9	14	-	-

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SOX Compliance: Results of Interim Testing



- While only two of the deficiencies identified resulted in a immaterial misstatements to the financial statements, management is required to evaluate the potential magnitude of the deficiency. Typically, the known error is the "floor" whereas the potential magnitude may be significantly greater (e.g. account balance, etc.).
- Management evaluated the severity of the deficiencies identified and considered (1) Whether there is a reasonable possibility the company's controls will fail to prevent or detect a misstatement of an account balance or disclosure; and (2) The magnitude of the potential misstatement resulting from the deficiency or deficiencies.

Category	Definition
<u>Control Deficiency:</u>	A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
<u>Significant Deficiency:</u>	A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.
Material Weakness:	A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

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SOX Compliance: Results of Interim Testing



- Management has evaluated the severity of the deficiencies and concluded that as of September 30, 2018 none of the deficiencies individually or in aggregate rise to the level of a material weakness. However, two significant deficiencies were identified during the evaluation:

Significant Deficiency

Comments

PAR Settlement

The PAR settlement was erroneously recorded as a successor period expense after the determination of the appropriate accounting treatment was determined. The issue resulted in an immaterial misstatement on the balance sheet dated March 31, 2018 and the Statement of Cash Flows presented for the second quarter.

Property Accounting

During the second quarter, management identified six internal control deficiencies related to (i) depletion calculation; (ii) proved and unproved property impairment; (iii) reclassification of SWD system; (iv) review of the credit-adjusted risk free rate. The deficiencies were primarily due to lack of documentation and none of the deficiencies individually or in aggregate result in a material misstatement to the first or second quarter financial statements. However, management considers the aggregation of the individual property accounting deficiencies to be of sufficient magnitude the Audit Committee would want to be informed of the matter.

- Note: All unremediated deficiencies will be evaluated for severity as of the date of management's assessment of internal control over financial reporting.

Brian

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SOX Compliance: Current ITGC Results



In-Scope Systems	Logical Access	Change Management	Backup and Recovery
Bolo	X	X	X
Aries	X	X	X
OnBase	X	X	X
ProCount	X	X	X
Assent 143-Opportune	X		
Merrill Lynch	X		
PayCom	X		
Commodity XL-Triple Point	X		
Active Directory / Windows OS	X	X	
SQL Server	X		X

- There are 10 systems and/or system components that are deemed to be in-scope for 2018, which is consistent with 2017. WellEZ and Certify were replaced in 2018 by SQL Server and Merrill Lynch.

- "X" indicates which major IT general control (ITGC) processes are evaluated for each in-scope system. Certain major ITGC processes are not applicable to test for cloud based systems or based on the nature of the system function.

ITGC Process Name	2018 Key Control Count	2017 Key Control Count
Overall IT Environment	1	1
Logical Access	23	5
Physical Security	1	1
Change Management	5	4
Computer Operations	5	4
Program Development	3	1
Network Security	0	4
Total Controls	38	20

- This table demonstrates the number of key controls across all ITGC processes.

- Controls increased from 20 to 38 to enhance precision across all in-scope system components and to add one-time controls for coverage where control gaps were identified. Others deemed non-key for SOX (Network Security) were removed.

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SOX Compliance: Current ITGC Results



- ITGC Status
 - Initial design Evaluation completed in early 3Q
 - 2 Logical Access controls required documentation enhancements to facilitate user provisioning and termination testing for in-scope applications
 - 3 Logical Access control gaps were identified relating to database access and contractor access
 - All remediation from the initial design evaluation was completed by 8/10/18
 - Preliminary walkthroughs performed with KPMG in August and September. Final IT walkthroughs are scheduled for this week.
 - Design evaluation testing has started for controls finalized last week and final testing will continue into December.
 - All ITGC work is planned to be complete by 2/1/19.

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SOX Compliance: Results of Interim Testing



- As control deficiencies were identified, we coordinated with management to develop a remediation plan and timeline to ensure corrective action taken was appropriate and would allow management to demonstrate the controls are in-place and operating effectively as of the date of management's assessment.
- Prioritized remediation testing for deficient business process controls to determine whether these control activities were in-place and operating effectively for the 3rd quarter.
 - Based on results of procedures performed as of November 5, 2018 it appears management **has taken the action to remediate** these deficiencies. Remedial action included:
 - Reinforcement of control documentation expectations;
 - Implementing new controls to create a more layered control environment;
 - Development of policies and procedures for new processes; and
 - Continue to evaluate existing resources and reallocation of workload
- Control deficiencies cannot be considered remediated until minimum demonstration of effectiveness has been achieved (e.g. two consecutive quarters, etc.). It is **critical** management continue the momentum achieved in the 3rd quarter as the results of remediation depend on the controls operating effectively during the 4th quarter.

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SOX Compliance: Q4'18 Planned Activities



- Continue to work with management to remediate issues and enhance the design of the control environment.
- Continue to assist management with creating / refreshing internal control and process documentation (e.g. flowcharts, etc.).
- Finalize Information Produced by Entity (IPE) Analysis and provide to KPMG.
- Complete remediation and rollforward testing and provide KPMG results of procedures performed.
- Coordinate with KPMG and determine whether reliance can be placed on Internal Audit's testing of low risk controls.
- Work with management to document ASC 842 and ASC 606 implementation controls.
- Schedule Year-End Testing (January / February – 2019)



Discussion